

Message Text

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DRAFTED BY: XMB:THOMAS P DOUGHTY

APPROVED BY: EB/OCA/REP:MWDONOVAN

XMB: CHARLES E HOUSTON

WARREN W GLICK

WALTER C SAUER

WILLIAM J CASEY

ARA/APU F V ORTIZ

EB/IFD/ODF EMLINTON

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FM SECSTATE WASHDC

TO AMEMBASSY BUENOS AIRES

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E.O. 11652: N/A

TAGS: EFIN, PE

SUBJECT: EXIMBANK COMMITMENT TO ALLIS-CHALMERS TO FINANCE RIO

GRANDE HYDROELECTRIC PROJECT

FROM EXIMBANK FOR AMBASSADOR HILL

REF: (A) BUENOS AIRES A-190, AND (B) STATE 103426

1. EXIMBANK REQUESTED DEPARTMENT TO SEND FOLLOWING MESSAGE AND
TRUST EMBASSY WILL UNDERSTAND IT IS SENT IN SPIRIT OF CLARIFYING
EMBASSY'S ROLE CONCERNING EXIMBANK LOAN COMMITMENTS.

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2. EXIMBANK WAS GREATLY SURPRISED AND DISTURBED TO BE INFORMED

IN REF A, RECEIVED BY EXIM ON JUNE 14, THAT EMBASSY HAD ON ITS OWN INITIATIVE SIGNED A PRELIMINARY COMMITMENT ON MAY 17 ON BEHALF OF EXIM AND DELIVERED IT IN BUENOS AIRES TO ALLIS-CHALMERS. EMBASSIES HAVE NO AUTHORITY TO TAKE SUCH ACTION WITHOUT EXPRESS AUTHORIZATION FROM EXIMBANK. NEITHER REF B NOR DISCUSSIONS WITH EXIM ON THE SUBJECT OF ALLIS-CHALMERS' REQUEST TO AMEND THE OUTSTANDING PRELIMINARY COMMITMENT CONVEYED NOR WAS INTENDED TO CONVEY AUTHORITY TO THE EMBASSY TO ISSUE A PRELIMINARY COMMITMENT TO ALLIS-CHALMERS. WHILE EXIM FULLY APPRECIATES THE ROLE OF EMBASSIES IN THE PROMOTION OF U.S. INTERNATIONAL TRADE, EXIMBANK BEARS SOLE RESPONSIBILITY FOR APPROVAL OR DISAPPROVAL OF LOAN REQUESTS AND THE ISSUANCE OF COMMITMENTS SETTING FORTH THE TERMS AND CONDITIONS OF ANY SUCH APPROVALS.

3. IN A PRELIMINARY COMMITMENT LETTER DATED MAY 24, 1974, TO ALLIS-CHALMERS, EXIM INCORPORATED THE AMENDMENTS WHICH IT STATED IN REF B WOULD BE AGREEABLE TO THE BANK. ALLIS-CHALMERS, OVER THE SEVERAL MONTHS OF ITS NEGOTIATIONS WITH AGUA Y ENERGIA ELECTRICA, HAS FREQUENTLY GONE FIRST TO THE EMBASSY ON MATTERS RELATING TO EXIM'S PRELIMINARY COMMITMENT THUS PERMITTING THE INFERENCE TO BE DRAWN THAT THE TERMS OF EXIMBANK'S FINANCING CAN BE BARGAINED BETWEEN BROKERS. CONSEQUENTLY, ALLIS-CHALMERS IS NOW IN THE UNIQUE POSITION OF HAVING TWO PRELIMINARY COMMITMENTS FOR FINANCING THE SAME PROJECT, ONE FROM THE EMBASSY "ON BEHALF" OF EXIMBANK, THE OTHER DIRECTLY FROM EXIM, WITH DIFFERENT EXPIRY DATES AND DIFFERENT DATES ON WHICH REPAYMENT INSTALLMENTS COMMENCE. THE EXPIRY DATE OF JULY 31, 1974, AND THE MAY 1, 1980 DATE FOR THE FIRST REPAYMENT, WHICH ARE IN EXIM'S LETTER OF MAY 24, 1974, CONSIDERED BY EXIM AS PREVAILING. GIVEN THE REPORTED HISTORY OF THE SENSITIVENESS OF AGUA Y ENERGIA ELECTRICA TO THE TERMS AND CONDITIONS OF THE FINANCING PROPOSALS OF THE BIDDERS (AND, OF COURSE, ITS REPORTED GENERAL CRITICISM OF EXIMBANK'S PROCEDURES) THE CONFUSION CREATED BY THE TWO LETTERS COULD WELL CAST DOUBT ON THE VALIDITY OF THE ALLIS-CHALMERS PROPOSAL AND PROVIDE A BASIS FOR REJECTING IT.

4. IT SHOULD BE NOTED IN CONCLUSION THAT THE BASIS OF ALLIS-CHALMERS REQUEST FOR A LONGER REPAYMENT PERIOD WAS THAT ITS PRINCIPAL FOREIGN COMPETITOR, AN ITALIAN BIDDER, LIMITED OFFICIAL USE

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WAS EXPECTED TO BETTER THE 10-YEAR REPAYMENT TERM WHICH HAD BEEN SOUGHT IN THE BID SPECIFICATIONS OF PAYEE AND WHICH EXIMBANK HAD PROVIDED IN THE PRELIMINARY COMMITMENT. AS CUSTOMARY FOR EXIM, IT QUERIED THE ITALIAN MEMBER OF THE BERNE UNION AS TO THE REPAYMENT TERM IT WOULD SUPPORT FOR ITS SUPPLIER. BECAUSE OF REPRESENTATION OF THE EMBASSY AND ALLIS-CHALMERS THAT APPROVAL OF LONGER REPAYMENT TERMS NEEDED BY MAY 17, EXIM AGREED TO LONGER TERM BEFORE A RESPONSE WAS RECEIVED FROM THE BERNE

UNION INQUIRY. WHEN THE RESPONSE WAS RECEIVED, THE ITALIAN MEMBER STATED THAT IT WAS PREPARED TO SUPPORT A REPAYMENT TERM OF EIGHT AND ONE-HALF (8-1/2) YEARS AND WOULD LIKE TO SEE SUCH A TERM AGREED WITHIN THE BERNE UNION. EXIM WAS COMPELLED, OF COURSE, TO INFORM THE ITALIANS THAT IT HAD ACTED BEFORE THE LATTER COULD RESPOND TO THE INQUIRY. SISCO

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